



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 1, 1999

**MEMORANDUM FOR:** Dr. D. James Baker  
Under Secretary for Oceans  
and Atmosphere

**FROM:**   
Johnnie E. Frazier  
Acting Inspector General

**SUBJECT:** Audit of NOAA's FY 1998 Financial Statements  
Audit Report No. FSC-10869-8-0001

The attached audit report presents the results of the audit of the National Oceanic and Atmospheric Administration's (NOAA) Consolidated Balance Sheet as of September 30, 1998, and the related Consolidated Statements of Net Costs, Changes in Net Position, and Combined Statements of Budgetary Resources and Financing for the year then ended. Also provided are reports on NOAA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NOAA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of KPMG LLP was contracted to audit NOAA's FY 1998 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

We commend NOAA management and staff on the significant progress made since the prior audit. The results of the FY 1998 audit are in marked contrast to the results of the FY 1997 audit in which KPMG issued a qualified opinion and 17 reportable conditions, of which 6 were material weaknesses.

KPMG expressed an unqualified opinion on NOAA's Consolidated Balance Sheet as of September 30, 1998, and disclaimed an opinion on its Consolidated Statements of Net Costs and Changes in Net Position, and Combined Statements of Budgetary Resources and Financing of Operations and Changes in Net Position for the year ended September 30, 1998, because of the effects of the qualified opinion in the previous year. The October 1, 1997, Consolidated Statement of Financial Position amounts enter into the determination of FY 1998 net costs and changes in net position, budgetary resources, and reconciliation of net costs to budgetary

obligations, and it was not practical to extend audit procedures to audit those balances. Accordingly, the scope of the auditors' work was not sufficient to enable them to express an opinion on NOAA's net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 1998.

In its Report on Internal Control over Financial Reporting, KPMG identified 7 reportable conditions, of which 2 are material weaknesses:

#### Material Weaknesses

- Accounting for Construction Work-in-Progress (CWIP) Should be Improved (Repeat Condition)
- The Grants Management Division Should Improve Monitoring of Grant Recipients (Repeat Condition)

#### Reportable Conditions

- Preparation, Analysis, and Monitoring of Financial Information Should Be Improved (Repeat Condition)
- Procedures for Year-end Accounts Payable Accruals Should Be Improved (Repeat Condition)
- Controls over Monitoring the Budget Should be Improved (Repeat Condition)
- The Office of Finance and Administration Should Ensure Procedures to Comply with the Statement of Federal Financial Accounting Standards No. 2, "Accounting for Direct Loans and Loan Guarantees" are Implemented (Repeat Condition)
- Inter-agency Agreement Policies and Procedures Should Be Followed (Repeat Condition)

In its Report on Compliance with Laws and Regulations, KPMG identified the following instances of non-compliance:

- NOAA did not fully fund its capital leases during FY 1998.
- NOAA's financial accounting system does not substantially comply with the Federal Financial Management Improvement Act in that its financial management systems do not support the preparation of timely, accurate financial systems.

We recognize NOAA's commitment to preparing high quality and meaningful financial statements. While progress has been made in many areas, NOAA needs to address the remaining material weaknesses and reportable conditions. These weaknesses will continue to inhibit accurate and timely financial reporting. We encourage NOAA's management to continue to make concerted efforts to improve the internal control structure; timely implementation of corrective actions is important for the preparation of financial statements for FY 1999.

Our office reviewed a draft version of the NOAA overview to its FY 1998 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We informally provided NOAA with a memo containing the OIG's observations and recommendations on the draft overview. The OIG realizes that improving the overview is an iterative process and encourages NOAA to strengthen next year's discussion of the bureau's results. We also encourage NOAA to continue its efforts to improve performance measurement and reporting.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan is Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal. The DAO prescribes procedures for handling any disagreements this office may have with the audit action plan.

Should you need to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934 or Thomas McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by NOAA during this audit.

Attachment

cc: Linda J. Bilmes  
Acting Chief Financial Officer and  
Assistant Secretary for Administration

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